

INTEGRATING MICROENTERPRISE PRODUCTION

(TC-00-07-03-9)

EXECUTIVE SUMMARY

Executing agency:	SERCAL Foundation	
Amount and source:	MIF Window III- A	US\$1,092,000
	Counterpart funding:	US\$ 839,000*
	Total:	US\$1,931,000
Terms:	Execution period:	36 months
	Disbursement period:	42 months
Objectives:	<p>The general objective of the project is to enhance competitiveness in various sectors of the economy where there are many microenterprises and small businesses that now supply, or have the potential to supply, production chains concentrated in specific local areas.</p> <p>The specific objective is to strengthen at least 200 microenterprise and small businesses, to enable them to establish an effective presence as part of a production chain in a local development setting.</p>	
Description:	<p>To achieve these objectives, the project is divided into four components: (i) awareness-raising among leading firms and local development agencies; (ii) preparation of diagnostic studies and action plans for the production chains; (iii) intervention in at least five production chains; and (iv) dissemination, administration and evaluation of the methodology and outcomes.</p> <p>The aim of the first component is to obtain: (i) at least 10 consulting firms or local development agencies trained to intervene locally and foster supplier development for leading local firms; and (ii) at least 25 leading firms potentially interested in submitting supplier development proposals.</p> <p>The aim of the second component is to obtain: (i) at least 10 diagnostic studies and action plans prepared; and (ii) at least five action plans selected.</p>	

* Although SERCAL will be responsible for the local counterpart funding in its entirety, US\$168,500 will consist of contributions from leading companies and US\$670,500 will come from SERCAL itself.

The aim of the third component is to have at least 200 microenterprises and small-scale suppliers effectively participating in at least five production chains in a local development context. The immediate effect will be an increase in local value-added. The project is also expected to significantly improve the competitiveness of leading firms, while affording greater economic stability to the smallest business units and enabling them to compete in other markets on the basis of the reputation they have acquired as active members of a production chain.

The fourth component involves dissemination of the project and its results, together with administration and evaluation activities. The expected outcomes of this component are: (i) a methodological document illustrating project execution; and (ii) an international event held to publicize the Chilean experience and disseminate the document containing the methodology.

Risks:

This project is highly risky, mainly because larger firms have the perception that smaller economic units are inefficient and inept. Accordingly, the main risk associated with the operation is that there will be insufficient demand among leading firms, given the perceived risks of working with microenterprises. The project envisages three actions to mitigate this risk: (i) the intervention will include payment of a percentage subsidy to generate sufficient demand among leading firms; (ii) US\$120,000 will be invested in awareness-raising and promotion activities aimed at the key actors in the process; and (iii) the design of the project itself, which involves execution in defined stages and requires demonstration of the achievements in previous components and concrete commitments prior to proceeding with later components.

There is also a risk of the microenterprises coming to depend on the market acquired through the project. To mitigate this risk, the interventions will not only cover technical considerations, but also address management issues and the opening of new markets.

Beneficiaries:

The project's beneficiaries will be at least 200 microenterprises and small businesses with potential to act as suppliers to large and medium-sized enterprises. These 200 firms will be arranged in at least five production chains.

Environmental and social review:

The operation was reviewed by the Committee on Environment and Social Impact (CESI) at its meeting of 29 September 2000, where it was decided that no special actions were called for.

Special contractual clauses:

Conditions precedent to disbursement of component 1: presentation to the Bank's satisfaction of: (i) Board minutes, recording the appointment of a coordinator, specification of his/her functions, and exclusive assignment of the corresponding work; and, (ii) the first annual project plan, including a detailed timetable of

activities, resources anticipated, targets for each activity and the actions needed to achieve them (paragraph 4.5).

Conditions precedent to execution of component 2: presentation to the Bank's satisfaction of: (i) the bidding conditions for the competitive selection process and criteria for ranking proposals; (ii) report evaluating promotion actions undertaken and results thereof; and (iii) letters of commitment from leading firms, undertaking to contribute a minimum of 10% of the cost of carrying out the action plans (paragraph 4.8).

Condition precedent to disbursement of the financing for components 3 and 4: (i) presentation to the Bank's satisfaction of letters of commitment from selected leading firms undertaking to assume at least 15% of the costs of the intervention; and (ii) a report on the process of selecting the five production chains chosen for intervention (paragraph 4.11).

The consultants to be hired by SERCAL to draw up the bidding conditions for the competitive selection process, along with the corresponding ranking criteria, will automatically be ruled out as potential consultants to be hired by firms for preparing diagnostic studies, action plans and subsequent intervention (paragraph 4.8).